

**READING BOROUGH COUNCIL
REPORT BY DIRECTOR OF FINANCE**

TO:	COUNCIL		
DATE:	23rd FEBRUARY 2022		
TITLE:	CHIEF FINANCE OFFICER'S REPORT ON THE ROBUSTNESS OF THE COUNCIL'S 2022/23 BUDGET		
LEAD COUNCILLOR:	COUNCILLOR BROCK	PORTFOLIO:	LEADER OF THE COUNCIL
SERVICE:	ALL	WARDS:	BOROUGHWIDE
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1. PURPOSE OF THE REPORT AND EXECUTIVE SUMMARY

- 1.1 Under Section 25 of the Local Government Act 2003 there is a requirement for the Council's Chief Financial Officer (Director of Finance) to report to Council on:
- a. The robustness of the estimates made for the purposes of the calculations of the budget; and
 - b. The adequacy of the proposed level of financial reserves.
- 1.2 Council in considering its Budget should have regard to this advice.

2. RECOMMENDED ACTION

- 2.1 That Council notes this report in setting its budget for 2022/23.

APPENDICES: Appendix 1 Summary of Estimated Reserve Movements 31/03/2022-31/03/2025

3. POLICY CONTEXT

- 3.1 The 2022/23 budget has been developed to reflect the changing landscape in which Councils are now operating. The Covid-19 pandemic has had a significant impact on Council budgets, with increased costs and reduced levels of income. As we approach the end of the second year of the pandemic there is still huge uncertainty around the long-term impact of Covid-19 on the Council's budgets.
- 3.2 Income levels have still not returned to pre Covid-19 levels, and there are also significant pressures in the social care system. The 2022/23 budget proposes an increase of over £5m in the budget for Adult Social Care services for next year to fund the impact of those cost pressures, including the ongoing commitment to fund care providers at a level that

allows them to pay staff at the rate recommended by the Living Wage Foundation rather than the lower National Living Wage rate set by central government.

- 3.3 The Spending Review and Autumn Budget 2021 was delivered by the Chancellor on 27th October 2021. For the first time since 2018 this was a multi-year plan. Despite the multi-year Spending Review announcement, another one-year provisional Local Government Finance Settlement was published on 16th December 2021. Whilst no specific reason for this has been provided by Government this is likely to be due to either the new Secretary of State giving himself the space to review how the Local Government finance system can support the 'Levelling Up' agenda, or simply that the Government intend to implement the reforms to the local government funding mechanism which have been stalled for several years now. In either event announcing funding allocations at specific Council level prior to announcing any reformed mechanism would be misleading. Whatever the reason, the single year settlement does make medium term planning more challenging.
- 3.4 As a Unitary authority the Council provides the broadest possible range of services and has an inherently higher level of risk than many other authorities simply due to the complexity and nature of the services we provide. Additionally, the Council has taken policy decisions to establish several alternate delivery models including wholly owned companies and PFI arrangements which whilst having advantages also have the potential to increase the Council's risk profile.
- 3.5 The Council's wholly owned bus company, Reading Transport Limited (RTL) has historically operated on very low margins and with minimal reserves and, like other operators has been hit hard by Covid-19. Passenger numbers remain significantly below pre-Covid levels and the company has been reliant on Central Government grant funding to mitigate the impact of reduced income. This grant funding is currently due to end in March 2022. The Council continues to work with RTL to address concerns about ongoing financial viability.
- 3.6 In October 2019 the Chartered Institute of Public and Finance and Accountancy (CIPFA) launched a new Financial Management (FM) Code in response to the well documented financial difficulties faced by some authorities. The FM Code is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. The first full year of compliance with the Code is 2021/22 and an assessment of the Councils' compliance with the Code will be presented to Audit and Governance Committee in April 2022.
- 3.7 The Council's 2018/19 accounts were signed off in September 2021 and the 2019/20 audit is well underway and work on the preparation of the 2020/21 accounts is underway. While there is the potential for the audit work to result in adjustments to the level of reserves, it is not anticipated that these will have a material impact on the 2022/23 budget or MTFS.

4. ROBUSTNESS OF THE ESTIMATES

Approach to and Assumptions within the 2022/23 Budget and Medium-Term Financial Strategy

- 4.1 My team has led the production of the 2022/23 budget and the 2022/23 to 2024/25 Medium Term Financial Strategy with input from the Councils' political and officer leadership team.

- 4.2 The 2021/22 budget was set at the height of the pandemic and regular budget monitoring throughout the year has identified a number of key areas that have been addressed in the preparation of the budget for 2022/23 and the 3-year MTFS.
- 4.3 All aspects of the Council's budget, savings, income, service changes, pressures and capital projects and new bids have been subject to review, with services being required to review the plans they put forward in previous years and confirm delivery of the proposals or, put forward business cases for change where necessary. Budget proposals have subsequently been reviewed by:
- The Finance Team
 - Corporate Management Team
 - Lead Councillors
- 4.4 The 2022/23 budget and the 3-year MTFS have been built up on a range of assumptions that are regularly reviewed and assessed by the finance team with support from our professional networks and specialist advisors. These are set out in detail in the Medium-Term Financial Strategy attached as Appendix 1 to the budget report.
- 4.5 In setting the new three-year MTFS, contingency provisions of £3.627m in 2022/23; £4.848m in 2023/24 and £6.348m 2024/25 have been provided for to allow for slippage or non-delivery of higher risk savings and income targets. The contingency provision increases in the latter years of the MTFS due to the increased level of risk in delivering future savings.
- 4.6 The main risks to delivering the proposals set out within this MTFS include:
- The ability to contain demographic demand pressures;
 - The speed of recovery and buoyancy of the general and local economy from COVID 19;
 - Adverse interest rate movements;
 - Increased inflationary pressures;
 - Delivery of capital receipts to fund the flexible use for transformation purposes and avoid prudential borrowing charges;
 - Future local government financing settlements from central government and potential impacts from changes to the Fair Funding Review;
 - The capacity of officers to deliver the savings and income projections in line with assumptions whilst still managing the impact of the pandemic; and
 - Slippage in the Capital Programme adversely impacting savings assumed within the MTFS.

Financial Management

- 4.7 Reading Borough Council has in place robust arrangements for financial monitoring, these include:
- The Director of Finance being a member of the Corporate Management Team;
 - Monthly financial reporting to the Corporate Management Team;
 - Quarterly financial monitoring to Policy Committee;
 - All reports to committee for approval include financial implications approved by the Director of Finance;
 - Strategic Finance Business Partners in attendance at Directorate DMT meetings.

4.8 The Council is on track to deliver services within the approved 2021/22 budget.

5. ADEQUACY OF RESERVES AND BALANCES

5.1 The level of reserves a Council should maintain is a matter of judgement. The consequence of not having adequate reserves can be significant. In the event of a serious problem or a series of events, the Council could run the risk of a deficit or be forced to cut expenditure in a damaging or arbitrary way should reserves not be available.

5.2 The proposed working balance for the General Fund reserve is set at £7.5 million or 5% of the net budget requirement. I consider this to be an adequate working balance.

5.3 In addition to the working balance the Council holds earmarked reserves, these include:

- Ring fenced accounts funded by third parties which must be repaid if not used for the purposes specified, e.g. grants
- Reserves which have a statutory limitation as to their use, such as Schools Balances, Dedicated Schools Grant and Housing Revenue Account reserves
- Accounts it is considered prudent to set aside for specific purposes, e.g. the Insurance Fund, Schools Deficits which will crystalize on academisation
- Committed but unspent budgeted amounts carried forward at the end of the financial year to deliver specific projects

5.4 Due to the significant amount of Covid related funding the Council received in previous financial years, including S31 grants reimbursing the Council for business rates reliefs, the Council's General Fund earmarked reserves increased to £98.119m at 31st March 2021, and are now projected to reduce to £85.976m by 31st March 2022 and to £61.526m by 31st March 2023 as these S31 grants are released. A full schedule of reserves and balances including those which are ring fenced to the Housing Revenue Account and Schools is attached at Appendix 1 together with an explanation as to their intended use. It should be noted that the earmarked reserves figures are indicative and will change depending on how quickly associated expenditure is incurred.

5.5 The HRA minimum balance is £4.0m for 2022/23 and increases in line with CPI annually. The forecast HRA balance as at 31st March 2022 is £45.575m.

5.6 CIPFA have stated that there should be no imposed limit on the level or nature of balances required to be held by an individual Council. However, in light of recent high-profile failures and funding concerns being raised by authorities they introduced a financial resilience index which uses a basket of indicators to measure individual authorities' financial resilience compared to their comparators.

5.7 I have reviewed the data that is available, and I can confirm that the key 'reserves sustainability measure' shows Reading Borough Council to be low risk.

5.8 The index also identifies that the Council has higher than average levels of external debt to fund its Capital Programme. While the revenue costs of this external interest have been modelled and budgeted for in the Medium-Term Financial Strategy and the Council continues to maintain an "under borrowed" position, this is a potential risk that will need to be closely managed. The use of specific earmarked reserves to fund capital expenditure will be considered as part of the arrangements for funding the 2021/22 capital programme.

6. CONCLUSIONS

6.1 Considering all of the above, the Council has taken a prudent approach to setting its 2022/23 budget and I conclude that:

- The process for the formulation of General Fund, HRA and Capital budgets provides for a reasonable assurance of their robustness;
- The level of contingencies is prudent;
- The provision of a transformation fund facilitates the ongoing delivery of required savings and the testing of new models of working; and
- The level of the Council's total reserves is sufficient to provide for:
 - A working balance to cushion the impact of unexpected events or uneven cash flows; and
 - The setting aside of funds to meet known or anticipated liabilities (earmarked reserves).

6.2 The indicative budgets for 2023/24 and 2024/25 are not currently in a balanced position with an ongoing budget gap of £5.828m. This budget gap will need to be addressed as part of 2023/24 budget planning.

7. CONTRIBUTION TO STRATEGIC AIMS

7.1 The Council's vision is to ensure that Reading realises its potential - and to ensure that everyone who lives and works in Reading can share the benefits of its success. The Council has three themes which contribute to delivering this vision. These themes are:

- Healthy Environment;
- Thriving Communities; and
- Inclusive Economy.

7.2 The setting and delivery of the Council's budget is essential to ensuring the Council meets its strategic aims and remains financially sustainable going forward.

7.3 Full details of the Council's Corporate Plan are available on the website.

8. ENVIRONMENTAL AND CLIMATE IMPLICATIONS

8.1 There are no environmental or climate implications arising directly from this report.

9. COMMUNITY ENGAGEMENT AND INFORMATION

9.1 The public budget consultation ran from 21st December 2021 until 14th January 2022. The feedback from this consultation, alongside the feedback from the Resident's Survey 2021 is set out in the 2022/23 Budget & Medium-Term Financial Strategy 2022/23-2024/25 Report elsewhere on the agenda.

10. EQUALITY IMPACT ASSESSMENT

10.1 There are no Equalities Implications arising directly from this report.

11. LEGAL IMPLICATIONS

11.1 The Council has a legal requirement to set a balanced budget. In agreeing its' budget Council is required to consider the report of its S151 Officer as set out in paragraph 1.1 above.

12. FINANCIAL IMPLICATIONS

12.1 These are set out in the body of the report.

13. BACKGROUND PAPERS:

13.1 None